THE NATIONAL CITY BANK OF NEW YORK

1921

Economic Conditions
Governmental Finance
United States Securities

New York, April, 1921.

General Business Conditions.

THE mild Winter has been followed by an early Spring and with the revival of outdoor operations there are symptoms of improvement in business, although they are not sufficiently pronounced to justify sanguine predictions. Retail trade continues surprisingly good in the cities, and wholesale distribution is very fair, considering the low prices of farm products and the amount of unemployment reported. Payments through banks reporting to the Federal Reserve Board and passing through the Clearing Houses are running 20 to 25 per cent lower than a year ago, which is not so great a decrease as might be expected in view of the decline of prices. The index number of commodity prices compiled by the Bureau of Labor for February last was 33 per cent below that of February, 1920. Current payments, of course, do not accurately represent current business, and considering the amount of unemployment at this time, it must be concluded that they are holding up better than production. For the last week of February the car-loadings reported by the railroads aggregated 658,222 as against 783,295 in the corresponding week of last year. For the month of February the cotton mills consumed 385,563 bales of raw material, against 515,599 bales in February, 1920, and 366,270 bales in January, 1921. The production of bituminous coal for the week ended March 12, 1921, was 6,891,000 tons, against 10,277,000 tons in the week ended March 14, 1920. Pig iron production in February, 1921, was 1,937,000 tons, against 2,978,879 in February, 1920, and 2,940,168 in February, 1919. The output of bee-hive coke for the year to the middle of March was 2,257,000 tons, against 4,527,000 tons in the corresponding period of last year. Exports of merchandise for February, 1921, were $489,310,942, against $645,145,225 in February, 1920; imports of merchandise, $214,525,137, against $467,402,320 in corresponding month of last year. Business failures in January and February, 1921, numbered 3,505, with liabilities of $138,334,990, against 937 in number with liabilities of $21,462,271 in the corresponding months of last year. Building permits in 156 cities, as reported by Bradstreet's, aggregated in value $140,507,319 in the first two months of 1921, against $234,941,100 in the corresponding months of 1920.

The Hopeful Signs.

The above figures do not show a pleasing state of affairs, but they only show what everybody knows, that we are passing through a period of depression, and when we take into account the state of business over the world, and the heavy fall in the prices of our staple products, there is reason for congratulation that conditions are no worse. The movement of goods in retail trade makes a better showing than any other feature of the situation, indicating reserve buying power and that commodity stocks are being reduced. There is not the amount of distress that might have been expected from so much unemployment, nor the number of business failures that might be expected following so severe a depreciation of values. The most encouraging circumstance is the fact that the readjustment of wages and prices which is necessary to a general revival of industry is steadily progressing, and without a serious amount of friction.

One of the notable incidents of the month was the agreement between the meat-packers and their employes, by which the latter accepted a moderate reduction of wages. A compromise was brought about by negotiations in Washington in which the Secretaries of Agriculture, Commerce and Labor participated. The labor leaders yielded to representation by these officials to the effect that in view of the decline in cost of living and particularly the decline in prices of the live stock which these operatives were handling, packing house wages ought to come down. Packing house wages went up approximately 100 per cent during the war, and so did live stock and packing house products, but during the last year cattle, hogs and sheep have fallen nearly to pre-war prices; indeed, when freight rates are taken into the account, the producer in many instances receives less than pre-war

prices, although his costs are all higher. Meats have been reduced, and by-products, such as hides, are below pre-war prices. The price which the farmer gets for his live stock and the prices which the working millions must pay for meats are affected by the cost of converting live stock into meats. It is more than a question between the packing house workmen and their employers; the packing house workmen are middle men between the farmers and the consumers; moreover, they are consumers themselves, not only of meats but of the products of other industries. The money in which their wages are paid is simply a convenient medium by which their services are measured against the services of the farmers in producing food and the workers in all the industries producing goods which they consume. Their real pay comes in the goods which their wages buy, and in that sense their pay has been increasing rapidly in recent months, and is greater after these reductions than it was at any time last year. Their pay is larger in proportion to the value of the products they handle than it ever was before.

Fair play requires that the compensation of workers in all industries shall rise or fall together. Moreover, when it does, employment is not disturbed; the workers are still able to buy each other's products; but when that balance is disturbed and any class of people suffers a severe loss of income, business quickly becomes bad in the other industries and many workers are thrown out of employment.

A fair readjustment of wages in the packing industry means help toward the general readjustment which must be accomplished before there will be employment for everybody again.

Wage Reductions a Condition of Industrial Revival.

It is a not uncommon remark that employers are taking advantage of the state of depression and unemployment to force wage-reductions. It is an ill-advised comment, calculated to cause bad feeling and indicates a want of understanding of the actual requirements of the situation. The fact is that depression and unemployment exist because the industrial situation is out of balance, and there is no remedy except by such readjustment of wages and prices as will restore the balance and enable the various industries to exchange products on a fair basis. It is impossible when one-half the people of the country have lost approximately one-half their purchasing power for the other half of the people to go on without taking note of it. The depreciation of money which resulted from the war was not a natural or permanent development. Nothing of the kind has ever happened without a readjustment afterward, and it is always the case that the sooner that adjustment is accomplished, so that normal relations are restored between the industries, the better for everybody.

It is of no advantage to the workers in any industry to have costs maintained upon a level which prevents the sale of their products. Somebody must have the sagacity to attempt a restoration of the conditions under which an exchange of products is possible. The compensation of workers in the various branches of industry—which means their purchasing power—must be brought back into equilibrium. Whether it will take a long time or only a short time depends upon the rapidity with which the public comprehends the situation, and remarks of the kind referred to do not promote an understanding.

Building Operations.

There is opportunity for a vast amount of house building over the country which would give employment to thousands of skilled mechanics in the building operations and many thousands more in all the building material industries, and which would bring about a general reduction of rents and improvement in living conditions. Such a revival of house-building would quicken all the trades and industries and go far in tiding this country over the period of depression which the world is bound to experience until Europe recovers from its state of prostration. But there will be no general revival of house-building upon the present level of costs, because the public cannot pay rents upon that level of costs. And that is only one of the dislocations which must be overcome before there can be a general revival of industry.

It is said in opposition to wage and price reductions that the full decline in raw materials and foodstuffs has not been reflected in retail prices. Of course it has not, when at every step between the producer and consumer an obstruction is raised. Cotton cloth does not reflect the full decline of raw cotton, because mill wages, rents, freight charges, price of coal, and other charges which enter into the cost of making cloth, all of which consist for the most part of labor, have not been reduced correspondingly. There will be no loss to labor in bringing them all down together; on the contrary, labor will be the chief gainer, through lower living costs, full employment and stable conditions.

Agricultural Conditions.

The Winter wheat crop is showing a record condition, and at this time promises a larger yield than last year. Favorable reports also come from European crops. The acreage of the latter is increased and condition is generally favorable. Rumania's crop is reported as

likely to be 80 per cent of pre-war yield. The price in our markets has been working lower, the May delivery selling at the close of March about 20 cents per bushel lower than at the beginning of that month.

The Winter is over and only three months remain of the crop year. The situation which last October was the subject of much controversy is to a great extent cleared up. An active agitation was going on at that time for the purpose of pledging the farmers to hold their wheat for $3 per bushel, and in some quarters it was confidently predicted that a shortage would develop this Spring. The stocks of wheat in this country on March 1st, according to the Bureau of Crop Estimates, aggregated about 320,000,000 bushels. The requirements of the country to July 1 for consumption and seed are estimated at 200,000,000 bushels, leaving 120,000,000 bushels for export and carry-over. World stocks are not large, but there is enough to go around and little desire anywhere to speculate on conditions in the next crop year. Trading in the July delivery, first of the new crop year, began in Chicago on the 28th at $1.25 per bushel.

Millers have had a hard year, working constantly upon a falling market. Dealers in flour have bought only for the immediate trade, and it has been a constant source of wonderment that their purchases have been so light. The mills have run at not more than one-half their capacity since the break in prices occurred, indicating that there were large stocks of flour in the country.

The stocks of corn and oats in the country are the largest on record. These grains have lost about 5 cents per bushel off the price since March 1st.

Butter and Eggs

The storage stocks of butter have been worked down to a low point, but it has been a losing year for the operators. Prices are about where they were a month ago, and represent a loss of about 20 cents per pound upon the stored supply. The egg dealers did very well on the stocks put into storage in the Spring months of 1920, and which were closed out early in the Winter, but they have been punished on recent purchases. Eggs have been accumulating and have dropped steadily from 71 cents per dozen to 26 cents, which is the price ruling at this time. The Spring crop of eggs is coming in, and will go into storage about 20 cents per dozen lower than last year.

Cotton and Woolen Trades

Raw cotton firmed up about a cent a pound in the latter part of last month, notwithstanding an official report showing that ginnings to March 21 had amounted to 13,197,775 bales, against the Government's December estimate on the crop of 12,987,000 bales. The 1920 crop thus turns out the second largest on record. The price was helped by better buying from Liverpool, where the feeling about the goods trade was said to be a little better. There was talk that the trade agreement with Russia would help some, and the prompt transmission of this effect to the American market afforded a striking illustration of the relation which all markets bear to each other. If England sells cotton goods anywhere this market will be benefited.

From the result of a questionnaire sent out in Georgia it appears that approximately one-half of the 1920 cotton crop of the State is still in farmers' hands. The general opinion now in the South is that the acreage in cotton will be reduced as much as 30 per cent.

The Textile Industries.

The Easter trade in cotton goods was good and there was a rally of 5/8 to 3/4 of a cent per yard in wholesale prices, which checked buying, as every such attempt has done. The cotton goods trade continues from hand to mouth. The trade in lightweight underwear has been very good, but little is doing in the heavyweights for Fall delivery.

Woolen goods for Fall delivery have been selling very well at the reduced prices, although the clothing industry is only moderately active. It affords another illustration of the necessity for wage readjustments. The producers of cotton and wool are receiving less than one-half as much for these materials as one year ago, the employes of the cotton and woolen mills where the cloth is manufactured have taken a wage reduction of 22½ per cent in New England and more in some sections of the country. The clothing trades are highly organized and are standing out against any wage reductions. Wages are very much higher in relation to the present price of raw materials than ever before. The farmers who produce the wool and cotton are obliged to pay prices for clothing that under the circumstances are unfair to them, and that is true of all the workers who have accepted reductions. The result is that the sale of clothing has fallen off, and although the clothing operatives are maintaining their wage-scales large numbers of them are out of work. Actual earnings in the industry are less than they would be at lower wage rates and a general state of employment.

A British Forecast

Mr. James Nesmith, a British expert in the cotton trade has recently expressed himself upon the future as follows:

Five-sevenths of our Lancashire cotton goods business, for example, is for export account. And that industry today is idle about five-sevenths of the time. Yet we feel the bottom of the world trade depression has been seen, and that recovery is near

Providing of credits and better productive effort in all countries will give the new stimulus. Human needs will supply the demand.

I look, in fact, for another wave of inflation to set in soon, though less violent than the last. I agree with the theory that a leading British banker recently expressed to me—that the world will see about seven years of recurring peaks and valleys in activity and prices, with each fluctuation less than the last, until stability is reached.

The same prophecy was made to me by a British industrial leader as early as 1916, with the time limit put at ten years. In our own industry, for example, despite today's depression, I venture to assert that the world will find itself before long actually short of textile machinery equipment.

The Metal Industries.

The iron and steel industry is operating at about 35 or 40 per cent of capacity. Prices continue to be shaded, pig iron of some grades selling under $25. The demand for structural steel is restricted by the high cost of everything, including steel, and especially the high wages in the building trades. Railroad consumption is restricted because practically the entire income of the roads is absorbed in paying the wages of their employes and for coal. Iron and steel are still high-priced, for one reason because wages in the industry are more than 100 per cent above pre-war rates, and for another reason because railroad charges are so high. The advent of Spring has given a start to the automobile industry, which has increased the demand for steel in that quarter. The demand from agricultural implement makers is light, because the farmers are not in position to buy implements on the present level of costs, and the International Harvester Company is both laying off employes and reducing wages.

This illustrates the hardships which the process of readjustment involves when it proceeds in this halting way, with many industries and many traders holding back. It is a hardship for workmen to have their wages cut and their time cut simultaneously, but a time cut alone accomplishes nothing in reducing costs. It is a hardship for workmen. to be out of work entirely, and it entails loss to the whole community. It is a hardship for workmen who have taken wage reductions to have to pay full war-time charges for having their clothes or shoes made, or for railroad or street car service. It is a hardship to have goods at retail remain high when producers' and wholesalers' prices have fallen. Everybody who is insisting upon the old wages or prices for himself while acepting cheaper service from others is delaying the revival of prosperity.

The demand for copper is light and the metal is selling at about 12 cents per pound, which is below the cost of production for most of the mines. Of course there is a great amount of unemployment in the mining districts. The outlet for copper is in building operations. Lead is at 4 cents per pound in New York, which means considerably less to the western producers than before the war, because of the increase of freight charges. A curious fact about the lead market is that it is unfavorably affected by the artificial price which the government is paying for silver under the Pittman act. Silver and lead are produced in large quantities together, and the silver-lead properties continue in operation for the profits on silver after the profits on lead have disappeared. It furnishes another illustration of how governmental interference in behalf of one industry usually results in injury to some other industry.

Foreign Trade Situation.

The foreign trade situation has not changed for the better in the past month. In one respect the European situation may be said to be reassuring. As time passes the menace of general revolution and social disorder is less threatening. Few people now think there is any probability of the Bolsheviki overrunning Europe or that anything more socialistic than a mild type of state-ownership is possible. Hundreds of representatives of labor organizations from all the countries of Europe have been in Russia to see the workings of the Soviet system, and their reports are not favorable. Europe is getting tired of disorder and short rations, and beginning to appreciate that production must go before distribution and consumption.

The unachieved settlement with Germany is the great obstacle to recovery in Europe, Allied troops have marched into Germany, but Lloyd-George admits that this gets nowhere, and that it is impracticable to occupy the country. It has been proposed that British purchasers of German goods shall be required to pay one-half the value to the British government, receiving a receipt which may be transmitted to the German creditor together with a payment of an equal amount in cash, the German creditor to present the British government receipt to his own government for reimbursement. The German government has not assented to the plan, and unless it does the prospect is for a heavy falling off of trade between the two countries. The natural result would seem to be a shift of trade, so that each country will trade more with other countries and less with the other.

The most hopeful development has been the appearance of declarations by several prominent people in France in favor of accepting the the proposal by Germany offering to undertake the task of restoring the devastated territory. The head of the French labor organizations, whose position corresponds to that of Mr. Gompers in the American Federation of Labor, has given out a statement in favor of this plan, saying that he is convinced

that it is sound policy. He says that he is advised that with the available labor in France it will take 40 years to complete the restoration. On the other hand the head official of the German labor unions has given out an interview in which he says that the German labor organizations acknowledge that there is an obligation upon Germany to make reparation and that they will support the government in undertaking to rebuild the ruined towns, roads, etc.

This would seem to offer a feasible approach to a settlement. The German government can supply building materials of German production and send German workmen into France to do the work, making payment in German currency, and that is practically the only way it can pay for having the work done. We pointed out last month that in order for Germany to pay in the usual manner she would have to build up trade balances equal to the annual indemnity payments, by selling unheard of quantities of exports, and that there were no countries willing to receive such quantities of goods. The consummation of the payments in this manner therefore depends not alone upon Germany's willingness and ability, but upon the attitude of other countries toward German goods. Moreover, it depends very largely upon the attitude of the United States, as one of the most important trading nations, and it would be contrary to the historic policy of this country to permit Germany to build up a great trade balance here. It seems to be quite practicable for the nations receiving reparation payments from Germany to collect them directly in goods or services and altogether reasonable that preference shall be given to this method which will make the minimum disturbance with trade and industry everywhere.

Situation in South America.

The business situation in South America remains decidedly unfavorable to trade. Quantities of American goods lie at all the ports unaccepted and of course unpaid for, millions of dollars in adjusted accounts are uncollected, because existing exchange rates would impose ruinous losses, and of course new business is very light. The worst of it is that there is no apparent prospect of early improvement. South America is accustomed to sell her products to Europe and the United States, and the former is buying very little, for the obvious reason that she cannot pay. America also is buying comparatively little, because she has all of the wool, hides, etc., that she requires for the present. Our markets are overloaded with them and the Congress is busily engaged in devising ways and means for discouraging further importations of such commodities.

European Food Conditions

Mr. McCurdy, Food Controller for Great Britain, made a speech in London recently which was reported as follows, in part:

The depression of the exchanges as between Great Britain and America was, in Mr. McCurdy's view, due more to European conditions than to anything which it was in the power of Great Britain to remedy. Europe was in many senses one economic whole, and so long as the food position was not remedied and so long as purchases of foodstuffs were made at these terrible rates of exchange, we should continue to feel the effects.

The agriculturists of Europe were producing £500,000,000 less wealth this year than they were doing in the year before the war, and that meant a reduction in the purchasing power of Europe on such a scale that the reduction exceeded the total exports of this country into Europe in the most favorable year before the war.

Foreign Exchange Rates

The table of exchange rates is as follows:

	Unit Value	Rate in cents Mar. 28	Rate in cents Feb. 25	Change from par	Depreciation
Canada	1.00	.88	.8800	.12	12%
Germany ..	.2382	.0160	.0160	.2222	93
Italy	.1930	.0398	.0362	.1532	79
Belgium	.1930	.0725	.0743	.1205	62
France	.1930	.0693	.0710	.1237	64
England	4.8665	3.92	3.86	0.9465	19
Switzerland	.1930	.1722	.1650	.0208	10
Holland	.4020	.3445	.3404	.0575	14
Denmark	.2680	.1745	.1808	.0935	34
Norway	.2680	.1610	.1735	.1070	40
Sweden	.2680	.2320	.2227	.0360	13
Spain	.1930	.1400	.1388	.0530	27
Argentine ..	.9648	.77	.7962	.1948	20
Japan	.4985	.4825	.4785	.0160	3

North Dakota Politics.

There has been more politics to the square mile in North Dakota in recent years than in any other part of the country. The state was moderately excited in the years when the Non-Partisan League was forming and fighting its way to control of the state government, but its attacks were directed mainly at such distant and impersonal enemies as Wall Street, the Minneapolis Chamber of Commerce, Big Business and the Money Power; but since the League actually came into power and began to do things the fight has developed into a hand-to-hand, knock-down and drag-out affair at home, and largely between factions within the Non-Partisan camp. There is less lambasting of far-away foes, except by way of emphasizing the necessity of suppressing dissenters at home.

Of late a story has come forth of the good old type, telling that the Money Power was attempting to strangle the New Freedom movement in North Dakota by refusing to buy $6,000,000 of North Dakota state bonds which had been offered in eastern markets, except upon the condition that the League program of state-owned industries was abandoned. We will give some attention to this

charge further on, but the situation will be better understood if a little of recent North Dakota history is given first.

Origin of the Non-Partisan League.

Our readers no doubt are familiar with the fact that the Non-Partisan League developed from a belief on the part of many farmers of North Dakota that they were victims of sharp practice at the hands of the grain exchange of the Minneapolis Chamber of Commerce, particularly in the manipulation of grades. It is unnecessary to go at length into the merits of that controversy, but we will go so far as to say on the one hand that the farmers no doubt were sincere in their belief, and on the other hand that the evidence has not been convincing to unprejudiced inquirers, and that in our opinion it is incredible that the Minneapolis Chamber of Commerce has countenanced unfair and irregular methods. It is quite possible that there may be individual members of the grain exchange who would not be above sharp practice, but that the exchange as a body would adopt rules of practice of that kind is unbelievable.

The Mixing Practice.

The charge is based upon the mixing practice. Any market where grain is received from many localities and of varying qualities affords an opportunity for profitable mixing, with the result that the quantities of the several grades shipped out will not be the same as the quantities of the same grades received. It is frequently advantageous to mix grain of a high-grade with grain of low-grade to improve the value of the latter. The mills do it to get the gluten content they want in their flour, and the grain dealers do it to improve the market value of the grain passing through their hands. A grain grade does not represent an exact quality; there are variations within a grade. Mixing, therefore, is inevitable, and because inevitable a recognized practice. It does not follow, however, because "No. 1 hard" is mixed with a lower grade in Minneapolis that the producer of either the former or the latter is defrauded. The value of "No. 1 hard" for mixing purposes counts in the market price and causes it to bring a higher price than it would for pure milling purposes. Likewise the fact that the lower grades may be raised by mixing counts in their market value. The practice, however, obviously is likely to be misunderstood and misrepresented.

The Demand for Terminal Elevators.

Whatever one's views may be as to the above, the people of North Dakota wanted terminal elevators at Minneapolis or Duluth, owned by the State of North Dakota, to handle North Dakota grain, and in 1912, when the proposition was submitted to an election, for the purpose of amending the constitution to permit such an investment of State funds, they voted 56,488 to 18,854 in favor of the proposition. Two years later another vote was taken upon the proposition to authorize and empower the General Assembly to provide for the erection, purchase or lease, and operation of one or more terminal elevators within the State of North Dakota, with a similar result.

The General Assemblies of North Dakota following these elections were unfavorable to both enterprises, and although recognizing that they had been given authority to provide for elevators did not consider themselves bound to do so, and did not do so. Subsequent events indicate that, even though the projects did not appeal to their judgment, it would have been better policy for them to have complied with the manifest wish of the people of the State. Even if the results proved disappointing the demonstration would have been cheaper than the experiences that have followed. There is a very old saying that the proof of a pudding is in the eating, and the world gets most of its authentic knowledge by trying experiments.

The Non-Partisan League was organized and swept the State, electing the Governor and other State officers and both branches of the General Assembly. Then followed legislation providing for raising money by means of bond issues, the organization of the Bank of North Dakota to aid in financing the various enterprises contemplated, the construction of grain elevators, flour mills, and various acts calculated to establish the power of the League in the State.

The Non-Partisan Split.

It was not until January 1, 1917, that the League was in full control, and before long serious dissensions within its ranks had developed. In December, 1919, what is known as the "anti-liar's act" was passed making it a felony for "any State official to wilfully publish false statements with reference to any State department, institution or industry," which was significant of the state of feeling at that time existing in the brotherhood of State officials. When the election of 1920 came around the disaffection was so great that the lower house of the legislature was lost to the League, and a referendum initiated by petition, seriously restricting the operations of the Bank of North Dakota, was adopted.

Among the active leaders in the farmers' movement which eventually took the form of the Non-Partisan League was William Langer, who at the very first convention of the League was endorsed by it for Attorney-General of the State, elected, and after serving one term was again endorsed by the League and re-

elected. He held the office until January 1, 1921. Mr. Langer seems to have been an earnest advocate of the original policies for which the League was organized, but he was not a Socialist and he soon became suspicious of Townley, the master spirit of the League organization, broke with Townley, Frazier and the other leaders of that group, and led an uncompromising revolt against them.

Mr. Langer wrote and published a book last year in which he gave his reasons for this course. In the first place he was disgusted to find himself in a bunch of radicals, to whom the avowed objects of the farmers' movement were only incidental. He considered that the great body of voters who had supported the League had been misled, and said:

> The farmers' program called for certain definite economic changes. The farmer wanted to get a fair, honest price for his wheat and other grain—he wanted to pay only his just share of taxes, he wanted a state-operated hail insurance law and he wanted rural credit banks operated at cost—that was their program—not Debs, or Mills, or O'Hare or Roylance or any horde of imperial Socialists!
>
> The North Dakota farmer is progressive. He wanted those things because they spelled progress for him, but the farmers of North Dakota are neither anarchists, atheists, free lovers, nor I. W. W.'s.

Before proceeding with his account of the administration of State affairs by the League, he refers to the "anti-liar's law," and invites attention to his position as follows:

> I am writing this book in North Dakota. I am the Attorney-General of the State. Under the terms of the "anti-liar's" act, the full text of which you will find in succeeding pages, if, in dealing with the institutions, departments, or industries of the State government, I make one single statement in this book which is not true, I can be placed in the penitentiary for one year. This ought to satisfy my worst enemy, adversary, or evil wisher.

The Scandinavian-American Bank.

He gives a full account of the relations of League leaders with the Scandinavian-American Bank of Fargo, an institution organized under the State banking act, with a capital of $50,000, surplus of $10,000, and a little more than $800,000 of deposits, which seems to have loaned money to them and their enterprises in a most reckless manner. Their relations with this bank began before the Bank of North Dakota, the State-owned institution was started, but he charges that the latter institution backed the former up with loans. It will be remembered that the Scandinavian-American Bank was closed by a bank examiner in October, 1919, the examiner being supported in his action by Mr. Langer, who as Attorney-General was a member of the State Banking Board, but the examiner was dismissed from the State service for his officiousness and the bank was reopened through the influence of the Governor and with the aid of an opinion of the Supreme Court of North Dakota, holding that post-dated checks held in its assets, which it had received from the League, should be counted as good resources. It was reported at the time that considerable new capital had been subscribed, but the bank finally went into the hands of a receiver February 14, 1921.

Mr. Langer goes into this Scandinavian-American bank case with much detail, and makes a showing that reflects very seriously upon the State administration. He shows that in 1918 the bank guaranty law went into effect in the State, and that under the original law the Governor was obliged to appoint three members of a Commission for its administration from a list of names submitted by the State Bankers' Association. The Governor did not control the Commission, but its Secretary was the State Examiner of Banks, appointed by the Governor. In order to come under the protection of the Guaranty Law it was necessary that the Scandinavian-American Bank should pass an examination. While this examination was being made the following remarkable letter, written by an assistant in the office of the State Examiner, was sent, suggesting how the bank might trick the Commission by getting rid temporarily of bad paper through the aid of other League banks which had already passed their examinations:

> Bismarck, N. D., June 10, 1918.
>
> Mr. J. J. Hastings, Vice-President,
> Scandinavian-American Bank,
> Fargo, N. D.
>
> Dear Mr. Hastings:
>
> Mr. Waters submitted to an operation at the hospital here today. While the operation was not serious yet he is not very well and will be laid up for a while. This is the reason that you and Mr. Semingson were not able to get him over the phone.
>
> He has asked me to write you regarding the extra help you have at your bank just now making an examination. He has been sick since last Thursday, or he would have headed the thing off. Being that Mr. Schroegge, Mr. Semingson and Mr. Halldorson are there now to make an examination on behalf of the commission, he does not care to create any animosity and antagonism over this matter at this time, and get as good report for them as possible, so that they won't have anything to hand the opposition parties over league finances and business methods, or criticize the amount of paper carried there. It appears quite evident that this is a political play for thunder. You see the opposition parties are a little short on real sensational thunder, and they are trying to scare up something for the last act, and I don't suppose the other banks in Fargo are just what you would term "crazy about you." Mr. Waters wishes me to advise that if the examiners object to any of the paper carried there, you are to tell them that it will be removed at once. The plan of taking care of objectionable matter is to shoot it out to the other league banks—Grand Forks, Hillsboro, Buxton, Hatton—these banks are practically all new banks, and have been passed by the commission which will leave them in a position to do this. They would not have anything that the commission would object to just now. Anything that you sent them could be taken back later if necessary. Of course, we don't want to move any more than is absolutely necessary, to get by with a clean report. Mr. Waters is satisfied that with this information, you and Mr. Semingson will be able to handle this matter satisfactorily to all.
>
> If anything further develops, kindly write me.
>
> Very truly yours,
>
> Roy M. Halliday.

A little more than a year later the Scandinavian-American Bank was examined again, at the instance of Mr. Langer and another member of the State Banking Board. Mr. Langer says of its condition as then recorded:

For a year and a half in violation of the State Banking Laws, the Scandinavian-American Bank had been engaged in wild-catting, kiting accounts, in making excess loans. Under the State law this bank could not loan more than $9,000 to any concern, person or corporation. Yet in violation of this law they made the following loans:

Consumers United Stores Co.	$170,000.00
National Non-Partisan League	148,824.26
League Exchange	66,182.00
Publisher's Natl.-Service Bureau	47,950.00
H. G. Hagerty	47,088.00
H. E. Knaack	23,000.00
A. M. Grosvenor (T. Allen Box line)	29,426.33
Porter Kimball	15,066.57
United States Sisal Trust	12,000.00
O. K. Hanson (Dir. of S.-A. Bank)	16,847.89
P. R. Sherman (Cash. of S.-A. Bank)	12,998.50
H. J. Hagen (Pres. of S.-A. Bank)	10,060.97
	$599,444.52

The Scandinavian-American Bank has a capital of $50,000.00 and a surplus of $10,000.00, making $60,000.00. Yet they loaned Townley and his associates nearly a half million dollars. Townley and his followers got a bunch of boys, non-residents, employees and clerks and attempted illegally to circumvent the law. The correspondence which I have shows that these signers were "dummies" and that Townley and his associates got the money.

Post-Dated Checks.

Commenting upon the decision of the Supreme Court of North Dakota that the post-dated checks were acceptable as good bank assets, Mr. Langer says:

Three members of our Supreme Court, Bronson, Grace and Robinson, have held that post dated checks are excellent security. I should like to see some farmers try to buy Bronson's, Grace's or Robinson's land on this excellent security, to-wit, post dated checks given by men living in Texas, Oklahoma, Wisconsin, Iowa, Kansas, South Dakota, Montana, Idaho, Washington, Oregon or Colorado, these checks being given by men whom they did not know, that they had not seen, who might not own property, and some of the checks over a year past due. There is not a farmer in North Dakota who would sell his farm for that kind of paper. These checks in the amounts of six, nine, sixteen, eighteen, thirty-two or one hundred dollars would be of small value if you had to hire a lawyer and pay him for his services in collecting them.

The Promotion of Waters.

When the Bank of North Dakota, owned by the State, was organized in 1919, J. R. Waters, who had been State Examiner, and who had directed the sending of the letter of advice to the Scandinavian-American Bank quoted above, was made president. Of his qualifications for the place Mr. Langer says:

J. R. Waters, whom Governor Frazier and the Commissioner of Agriculture and Labor, Mr. Hagen, appointed to manage the Bank, had never run a bank in his life. Before coming to North Dakota from Iowa he ran a livery stable. In North Dakota, the Governor appointed him bank examiner at the request of the "gang." Waters knew no more about the banking business than a ten-year old child reared in New York City would know about raising oranges in California.

We have not the space to go at length into other charges brought by Mr. Langer against the leaders of the Non-Partisan League and the State administration. He shows up the State publications act, under which a State official names an official newspaper in every county in which all official publications, including those of county officers, must be made, the object being to cut off income from anti-league newspapers and to build up league papers. Of the power of this organized publicity system in the politics of the State the Attorney-General wrote:

There is hardly a man living in North Dakota, no matter how honest, square and upright he may be, who can withstand attacks from the socialist crew with their large gang of newspapers, back of which is the money derived from the county printing in nearly every county in the state. In addition to that they have the enormous amount of money collected in the organization of the United Consumers Stores Company, ninety per cent of which they can use for "educational purposes." J. W. Brinton whom they are now seeking to discredit testified that he alone collected one million and one hundred thousand dollars from farmers in the Consumers United Stores Company, and time and time again I have heard Townley ridicule the farmers for being "damn fools" enough to pay $100 for the privilege of trading at a store they paid for.* This is the kind of an outfit which is in control of the State of North Dakota, posing as farmers' friends, when as a matter of fact they are their enemies.

He charges that the Bank of North Dakota is run as a political institution, granting and denying favors as such. He charges that breaches of trust on the part of public officials and other gross crimes have been condoned when committed by members of the league, giving names and particulars. He asserts that the State administration is extravagant and that the tax levy for all purposes was increased from $1,572,255.46 in 1918 to $3,800,000 in 1919.

Comments by the Chief Justice of the Supreme Court.

The Chief Justice of the Supreme Court of North Dakota, Judge Robinson, who was elected by the Non-Partisan League and has participated in some of the decisions criticized by Attorney-General Langer, has joined lately the ranks of the critics. In some parts of the country it would be considered unusual for the Chief Justice of the Supreme Court of a State to volunteer for publication a statement sharply criticizing the General Assembly and branches of the Executive Government, but the interchange of opinion in North Dakota at this time is highly informal, and in some respects very instructive. The situation recalls the famous editorial written by William Allen White some years ago, upon "What's the Matter with Kansas"?

*** The United Consumers Stores Company, operating 37 stores and sales agencies in North Dakota, went into voluntary bankruptcy, March 15, 1921.**

Chief Justice Robinson describes the situation of the Bank of North Dakota in graphic language, as follows:

> On our Ship of State there is a modern Jonah—the state bank.
>
> The lord has sent out a great wind and there is a mighty tempest in the sea so that the ship is likely to be broken unless Jonah be thrown overboard. The same Jonah, without any means of his own ,has posed as a banker and gotten into his coffers all the public monies from every county and every corner of the state. He has put a large part of the money into long time loans on land, into the coffers of bankers and parties that will never repay, and into buildings, mills and elevators. Now the depositors demand their money and there is no repayment.
>
> Jonah is several millions short and he will neither fish, cut bait, nor go ashore, so the chances are that he will have to be thrown into the sea; but in the treasury department there appears to be a tame whale with capacity sufficient to swallow and liquidate Jonah.

The Chief Justice confirms all that the Attorney-General of the State has written about the increase of taxation. Upon this subject, with a reference to the reverse suffered by the League at the election last year, he says:

> The people look to their solons for some relief from the robber taxes which have been levied during the past three years. Most people do not like to be robbed. Under the laws of 1919 the assessments and taxes have been marked up to three times those of any former year. At a special session of the solons in 1920, after the special election in Towner county, the League solons lacked only one senator of having a majority of two to one in each house. Then there was a demand to reduce by 50 per cent the unjust taxes of 1919, but there was only a reduction of 25 per cent from the state taxes. The result is that at the present session the League solons have no majority.

The Chief Justice denounces not only the excessive assessments but the new State income tax and a system of license taxes which has been inaugurated. He says about these:

> A person having a constitutional right to live must have a right to obtain the means of living—a right to work, eat, drink, sleep and use the toilet without paying a tax. The tax system of 1919 must pull down and send to grass any person who stands for it. Excessive taxation is robbery and it has always been the greatest curse of every state and nation.

The Bank of North Dakota.

The Bank of North Dakota was designed to be the financial agency for carrying out the League program of State-owned industries, State loans on real estate, etc., and to insure the financial independence of the State, free from the domination of Wall Street, the Money Power, et al. Deposits in the Bank are obligations of the State of North Dakota. The capital was to be $2,000,000, supplied by the sale of State bonds. The bonds were turned over to the Bank but have not been sold. The capital therefore is not available for banking purposes. In order to provide the Bank with funds, all public monies, belonging to counties, municipalities, school districts or any sub-divisions of the State, were required by law to be kept on deposit with it. The local banks organized under the State banking system were required to keep reserves with it; in short it was to be a central bank and reserve bank for the State, independent of the Federal Reserve system. The total deposits of the Bank at the close of June, 1920, were $26,500,000.

The deposits were largely re-deposited with local banks about the State, although substantial balances were kept in central cities outside the State. With the growth of dissatisfaction last year a measure was proposed by petition, under the act providing for the system of initiative and referendum, repealing that portion of the State Bank act which required the treasurers of local subdivisions of the government to keep public funds with the Bank, and this measure was carried at the election last November. This change seriously impaired the whole plan, for it deprived the Bank of a large part of the funds with which it was expected to do business. Moreover, it involved a withdrawal of re-deposits in local banks and of funds placed in investments from which in some instances they could not be readily withdrawn. The situation has been made more difficult by the fall in prices of farm products, which greatly reduced the value of last year's crops and also made the farmers disinclined to sell and caused money to be very tight within the State. Undoubtedly it has been an unfavorable time to shift deposits, and the embarrassment of the Bank has been increased by this fact. A large number of small banks have had to suspend payments. The Bank of North Dakota will meet all its obligations eventually no doubt, for it has the State of North Dakota behind it, but if it was required to meet them as other banks are expected to do it would have to close.

An Erroneous Plan.

The plan of making the State of North Dakota a self-contained unit financially was fundamentally erroneous. A well-balanced bank is one that serves so many different kinds of business that all its patrons are not calling upon it for help at the same time. A bank, as we have often pointed out, is not a source of wealth in itself; it is a reservoir and clearing house for the community that it serves. The whole theory of banking is based upon the assumption that normally about as many people will be wanting to put money into a bank as to draw money out. Some lines of business and some localities will need credit at certain seasons while in other lines and other places the demand will fall most heavily at other seasons. The service of a banking system is to make idle funds available where they are wanted. A single bank with an office in one town accomplishes this in a degree, a bank which serves a larger area of territory and a greater variety of business accomplishes it in a larger degree,

while banks that have customers in many lines of business, and in all parts of the country and in foreign countries accomplish it in still greater degree.

When the Federal Reserve system was organized the idea of regional independence was urged very strongly and the first thought was to make the twelve banks absolutely independent of each other. This policy was opposed, and some of the individuals who opposed it have been since falsely represented as opposing the whole measure. Fortunately in the last days of consideration the change was made giving the Federal Reserve Board authority to require one reserve bank to re-discount for another, an amendment which practically unified the system and broadened the base under every bank.

The State of North Dakota is mainly devoted to one industry, agriculture, and largely to one crop. Money is easy or tight in all localities of the State at one and the same time. For this reason the State does not make a well-balanced economic or financial unit in itself. Moreover, North Dakota is a comparatively new State; it has always used outside capital to its advantage and can continue to do so. The idea of corralling all the loose funds at the capital of the State, and of getting along without aid from outside was a mistake.

Conditions in Past Six Months.

As a matter of fact the banks of North Dakota during the past six months have borrowed heavily from the Reserve bank at Minneapolis, of funds deposited with it by the banks of other states, and also very heavily of correspondent banks in Minneapolis, St. Paul, Chicago and New York. The Reserve bank of Minneapolis also borrowed largely of the Reserve banks of the East, so that the resources of many states have been drawn upon for the assistance of the farmers of North Dakota.

These funds, as already stated, belong in the last analysis to individual depositors throughout these states, and when these depositors, in the course of their own business, wanted to use them, and the banks which originally held them called upon the Reserve banks and the banks of North Dakota for them, a great protest went up that the banking system of the country was oppressing the farmers of North Dakota. Other sections also, which were actually using large amounts of capital belonging elsewhere but placed at their disposal temporarily by means of the country's interlocked banking system, have made similar complaints, all due to a want of understanding of fundamental banking principles—to a mistaken idea that banking institutions can be organized to create credit and that credit can be made to take the place of capital to almost any desired extent. The whole conception is erroneous and every attempt to put it into effect results in trouble.

Difference Between Fixed Capital and Liquid Capital.

There is a difference between the credit to which a man is entitled on the strength of owning a farm or a block of buildings and that to which he is entitled on the strength of owning grain or another commodity ready for market, and whenever these two classes of credit are confused trouble is likely to ensue. Credit of the first class is a slow credit; the property may be good, but possibly cannot be converted into money at any definite time. The second class of credit usually can be promptly converted and therefore is the only kind suitable as security for advances by a bank which must keep itself in position to pay depositors on demand. It must be always remembered that the first duty of a banker is to pay his depositors when they want their money. The borrower ought to understand that the banker's first duty is to the depositor. The banker is a middleman, between the depositor and borrower. The latter has a right to the funds for the length of time agreed upon when he executes his note, and for not a day longer if the depositor then wants them. The banking business is based upon this principle. Deposits are obtained upon this understanding. Deposits are the basis of modern banking; without deposits the whole banking service would disappear, and if depositors could not count on getting their money when they wanted it deposits would not be forthcoming. It is of interest to the borrowing public, therefore, that there be a clear understanding upon this point.

The North Dakota Bond Issues.

After the foregoing extracts from Mr. Langer's book it should not be necessary to say much in explanation of why North Dakota bonds have not found a ready market. An issue of $6,200,000 was advertised, bids to be opened on December 15, 1920. It is reported that there were no bids. The amount is not so large that the State of North Dakota would need to look to Wall Street or the Money Power in the sense in which that term is commonly used. There are hundreds of bond houses over the country able to handle an issue like that, if it is of a kind that appeals to the average investor. To suppose that there was a general conspiracy to defeat this sale is ridiculous.

A representative of the State government came to New York City to sell the bonds. He was courteously received, given information and advice about possible buyers, in good faith: He spent some days in this city, went to Boston and probably other Eastern cities. So far

as we are advised nobody here made any proposition to him based upon an abandonment of any part of the Non-Partisan League program. The fact is that the parties concerned seem to enormously exaggerate the interest of the outside public in that program. State ownership and operation of industries have been tried before and few people believe that North Dakota is going to reverse all past experience. As a rule it is safe to say that the people who do not believe in the practicability of state operations in industry would rather see the North Dakota undertakings go through to a full trial than have them break down at this stage. The people of North Dakota certainly have a right to make the proposed experiments if they want to, but the right of an investor to make his own choice between North Dakota bonds and South Dakota bonds, or some other investment, is likewise above question. The government of South Dakota has a rural credits department which lends money direct to farmers on land mortgages, and is selling its state bonds for that purpose without any trouble.

Why the Bonds Do Not Sell.

The fundamental reason why the North Dakota bonds are not being readily sold, is that bankers are afraid they cannot sell them. Investment bankers buy bonds in the capacity of merchants, to sell again. They try to buy issues that they think will be popular with the public. They do not think the news coming out of North Dakota about the administration of the State government, the financial policies of the State, the increase of taxation and the general state of politics in the State, as reported by Mr. William Langer and others, is calculated to make a good market for the bonds.

Nobody doubts the solvency of the State of North Dakota, or the integrity of the great body of its citizens. These bonds are said to have been passed upon by the Supreme Court of the State, and presumably are valid, but there is evidence that the affairs of the State are not being well managed. People are not quite sure what the policies of the present State authorities might be if they should be retained in power. It has been pointed out that the sinking fund in which is to be annually accumulated the sums for the payment of the principal as it falls due is to be in the custody of the Bank of North Dakota, and that the bank has power to lend it to the departments of state that are conducting State industries. Naturally people ask, what kind of a sinking fund is that? Where will it be sunken when it is needed, and what provision will there be for its replacement?

Then there is sometimes a natural indisposition to do business even though the security offered is in itself unobjectionable. When a smooth salesman gets the signature of a farmer to a promissory note in exchange for a patent right or a block of doubtful stock and offers the note at a neighboring bank at a tempting discount, it is a doubtful purchase even though the name is above question. Bankers' associations throughout the country have passed resolutions urging that such purchases be not made.

We do not attack the government of North Dakota or even the officials who at present are managing it. We make no statements concerning them upon our own responsibility. The quotations given above are in the language of the man who was twice elected Attorney-General of North Dakota by the votes of the Non-Partisan League and of the present Chief Justice of the Supreme Court, also supported by the League, and since there is an interest in knowing why North Dakota bonds have not sold readily their statements are offered in explanation.

Federal Land Banks.

The Supreme Court of the United States has sustained the constitutionality of the Federal Farm Loan Act, and expressly that part of it which exempts the land banks and the securities issued by them and all income derived from such securities, from Federal, State and local taxation. The exemption was based upon a declaration contained in the act that "first mortgages executed to Federal land banks or to joint stock land banks and farm loan bonds issued under the provisions of this act shall be deemed to be instrumentalities of the Government of the United States." The act authorizes the Secretary of the Treasury to use both types of land banks as "fiscal agencies," for the deposit of public funds, sale of government bonds, etc.

The complaint alleged that the declaration that the banks were instrumentalities of the Government was only a pretext; that in fact they were not intended to be so used in any important sense, were not so needed, had not been so employed, and that the real purpose was simply to exempt a certain class of property from taxation, which in itself was not a lawful purpose.

The Supreme Court in its decision, which was unanimous except that Justice Brandeis did not participate in the case, planted itself squarely upon the opinion of Chief Justice John Marshall in the great cases, McCullough v. Maryland and Osborn v. Bank, in which the Court upheld the right of Congress to grant a charter to the Bank of the United States.

This is one of the great Marshall opinions, in which he gave a broad interpretation to the powers conferred upon the Congress, holding that it had authority to use such means

as in its judgment were deemed appropriate to carry on the functions of government. The Court in the present case says:

That the formation of the bank was required in the judgment of the Congress for the fiscal operations of the Government, was a principal consideration upon which Chief Justice Marshall rested the authority to create the bank; and for that purpose being an appropriate measure in the judgment of the Congress, it was held not to be within the authority of the court to question the conclusion reached by the legislative branch of the Government.

Referring to the authority given to the Secretary of the Treasury in the land bank act to use the land banks as depositaries of public monies, the Court says:

It is said that the power to designate these banks as such depositaries has not been exercised by the Government, and that the Federal Land Banks have acted as Federal agents only in the case of loans of money for seed purposes made in the summer of 1918, to which we have already referred. But the existence of the power under the Constitution is not determined by the extent of the exercise of the authority conferred under it. Congress declared it necessary to create these fiscal agencies, and to make them authorized depositaries of public money. Its power to do so is no longer open to question.

But, it is urged, the attempt to create these Federal agencies, and to make these banks fiscal agents and public depositaries of the Government, is but a pretext. But nothing is better settled by the decisions f this court than when Congress acts within the limits of its constitutional authority, it is not the province of the judicial branch of the Government to question its motives.

The Power to Tax is Power to Destroy.

As to the exemption from taxation, the Court says:

That the Federal Government can, if it sees fit to do so, exempt such securities from taxation, seems obvious upon the clearest principles. But, it is said to be an invasion of state authority to extend the tax exemption so as to restrain the power of the state. Of a similar contention made in McCullough v. Maryland, Chief Justice Marshall uttered his often quoted statement: "That the power to tax involves the power to destroy; that the power to destroy may defeat and render useless the power to create; that there is a plain repugnance, in conferring on one government a power to control the constitutional measures of another, which other, with respect to those very measures, is declared to be supreme over that which exerts the control, are propositions not to be denied." 4 Wheaton 431.

The same principle has been recognized in the National Bank Cases declaring the power of the States to tax the property and franchises of national banks only to the extent authorized by the laws of Congress. Owensboro Nat. Bank v. Owensboro, 173 U. S. 60, 64, involved the validity of a franchise tax in Kentucky on national banks. In that case this court declared (pp. 668, 669) that the States were wholly without power to levy any tax directly or indirectly upon national banks, their property, assets or franchises, except so far as the permissive legislation of Congress allowed such taxation; and the court declared that the right granted to tax the real estate of such banks, and the shares in the names of the shareholders, constituted the extent of the permission given by Congress, and any tax beyond these was declared to be void.

The exercise of such taxing power by the States might be so used as to hamper and destroy the exercise of authority conferred by Congress, and this justifies the exemption. If the States can tax these bonds they may destroy the means provided for obtaining the necessary funds for the future operation of the banks. With the wisdom and policy of this legislation we have nothing to do. Ours is only the function of ascertaining whether Congress in the creation of the banks, and in exempting these securities from taxation, Federal and State, has acted within the limits of its constitutional authority.

This opinion, which again defines the relations between the judicial and legislative functions of the Government, has a lesson for the thoughtless people who charge the judiciary with encroaching upon the powers of the Congress. The Supreme Court does not question the discretion of the Congress when legislating within the field where the constitution gives it authority. If the Congress says that the Secretary of the Treasury requires the assistance of land banks in managing the fiscal affairs of the Government the courts will accept that declaration.

A Doubtful Policy.

Accepting the decision of the Court as to the authority of the Congress as sound, we have the express permission of the Court to question the wisdom of the exemption policy. There is serious reason for questioning it in the fact that measures are now pending before committees of Congress to provide loans upon dwelling houses in cities and upon personal credits, the funds to be provided by the sale of tax-exempt securities. Under this decision the pressure for such legislation will be redoubled.

Moreover, the idea spreads to state legislatures. Measures are pending before several of them for exempting not only mortgages upon dwelling house property, but dwelling-house property itself from taxation.

There is no stopping place once legislation of this character is approved. Agriculture is a fundamental industry, but agriculture itself is dependent upon transportation and is seriously affected just now by the increase of transportation charges. Yet, somehow, the cost of operating the railroads must be met and the capital invested in roads must earn a fair return, or the roads will deteriorate. Why not, then, exempt from taxation all railroad securities and the income derived from them?

All Exemptions Wrong.

As a general rule tax exemptions are unjustifiable. There always have been certain exemptions, some of small importance, and others with some degree of justification, but they are especially objectionable in the case of taxes upon incomes and where the taxes are graduated with the purpose of making large incomes pay higher rates than small. The exemptions defeat that purpose, because the large taxpayer gets the same immunity as the small. If the amount of tax exempt securities on the market was small, not enough to supply the wants of the large tax-payers, there might be competition among this class for them with the result that the benefits would go to the borrowers by way of lower

interest rates; but the amount of the securities is already so large that there is an ample supply for the large tax-payers without such competition. Persons of even moderate incomes are finding it worth while to buy the tax exempt securities, and of course those of large incomes find a large saving in doing so. Five per cent to the large tax-payer free of all taxation means that he is gaining more by the exemption than the borrower is gaining by the reduction of the interest rate.

Somebody Pays for the Exemptions.

There is no escaping the grim fact that Federal, State, municipal and local taxes are destined to remain very heavy and every exemption makes them heavier for the people who have to do the paying. Wherever it is possible for the Government to aid industry or promote the welfare of any class of people without adding to the burdens of other people it is of course desirable that it should do so, but all special grants of favor are to be viewed with suspicion. It is more than doubtful whether the farmers as a class will gain anything by interest rates that are below the normal market rates. Probably one-half of the farms have no mortgages upon them. The owners of these are making their way without any help, and they will not be aided by subsidized competition stimulated by the activities of the Government. When it is also considered that taxation is made heavier for these farmers who will never take advantage of the farm loan act, or who could get along as well without it, it will be seen that it is not altogether a boon even for the farmers as a class.

Constitutional Amendment.

The pressure for exemptions in aid of different interests increases with every new grant and becomes more difficult to resist. The fact that municipal and school district bonds, drainage district bonds, etc., have the exemption privilege has strengthened the plea for the exemption of farm loan bonds, and the fact that the latter have it suggests the extension to dwelling house mortgages. The exemption of the securities of all divisions of the Government is held to be a reciprocal right, which probably could not be taken away without a constitutional amendment, and Congressman McFadden has proposed such an amendment. It ought to be adopted. The various divisions of the Government would be amply protected against each other by a provision against discrimination as in the case of national banks.

Of course outstanding issues which have been sold under tax exemption conditions would have to remain exempt, but with a constitutional amendment all new issues should be subject alike to all levies.

Land as a Factor in Prices.

We have received a letter from Professor H. C. Filley, of the department of rural economics, University of Nebraska, in which, referring to the discussion of the relation of farm land values to costs of production in the December Letter, he says:

> We agree with you very heartily in this discussion but there are a few points which might be added. In our work in cost of production in Nebraska, we do not use interest on the estimated value of the land as land cost. Instead we count the land rental at two-fifths of the crop delivered which was the common rental in eastern Nebraska in pre-war years. When crops are good and prices high this gives the landlord a rather high rental but in years like the present when prices of corn and oats are very low he receives a very low rental. Since so little land rents for cash we consider that this is much fairer than to make a fixed charge per acre. This two-fifths of the crop rental as a matter of course includes all land taxes, new building, repairs, depreciation, insurance on farm buildings and other items which are an essential part of the farm equipment and really constitute a considerable part of the land cost.
>
> In any discussion emphasizing the fact that farm land values depend upon the value of the farm products and that it is unfair to use the interest on estimated selling price of the land as a part of the cost of production, we should not fail to note that the same conditions apply to city property. The merchant for example, ordinarily counts his rental costs as a part of the essential cost of doing business. This rental cost, however, covers not only a fair rate of interest, depreciation and other items connected with the building in which he does business but covers also a valuation upon the land where the buildings stand and this valuation depends in turn upon the profits which some merchant is able to make in that particular location.
>
> For example, there are certain locations in the main business district of Lincoln, Nebraska, which have practically doubled in value in the last five or six years although the building on the site has not been changed and is in reality only a small part of the estimated value of the property. The merchants count the rental, including the rental of the land as well as the building, as a part of the cost of doing business and fix the selling price of their goods so as to include this cost. In no respect does this differ from the methods used by many farmers in obtaining their cost of production.
>
> We certainly agree with you that the farmer can not hope to secure a price for his products that will pay cost of production irrespective of the land value upon which these products were raised. We believe that you will agree with us that the merchant cannot hope to continue doing business at a large enough margin of gross profit that the interest upon the value of the land may always be returned irrespective of what that value may be.

The rule of land values is the same for city property and farm property. The value of the land in either case depends upon the income that can be derived from it; the income is not determined by what has been paid for the land. In boom times people frequently overestimate the permanent returns from all kinds of property and the severity of periods of reaction is largely due to such mistaken expectations. There are lands adjacent to cities in the West that were laid out as town lots prior to the panic of 1857, and never since have been worth what they sold for then. Land, particularly city property, in certain locations, may have a value for certain purposes

which it does not have for any other purpose. For a merchant to attempt to govern the prices of his goods by his rent or his investment in land would be acting upon a false basis. Nor does it follow because one merchant pays higher rent than another that his prices for goods are higher; high rents are usually for locations where a large volume of business can be done, and a large volume of business makes it possible to sell on a smaller percentage of profit.

The policy of calculating land charges upon the share-rentals instead of interest on estimated value of the land is decidedly preferable to the latter, but it must be borne in mind that the share-rental itself is a fluctuating quantity. Before the rise of prices which began about twenty years ago, it was one-third of the crop. Nobody will pay any rent for land unless he thinks there is a chance to first make fair wages by tilling it. As the returns increase the rental will naturally rise, but the rental is not a factor in the cost of the crop.

We have had numerous comments upon the discussion which appeared in the December Letter, some which lay emphasis upon the "monopoly value" of land, and the ability of landholders to "exact" high prices for products. The land-holder has as little to say about the value of his products as any other producer. More than almost any other class he takes what the market, governed by the law of supply and demand, allows him.

Of course the fact that the area of land is limited, and that some locations are preferable to others, gives a certain "monopoly value" to land, and affects the prices of products. This is the operation of the law of supply and demand, but it does not follow that consumers would be better off if all land values were confiscated. The area of land would still be limited. The only relief to the public is in having the land cultivated with the highest possible degree of efficiency. As we have frequently stated, consumers will be best served by whatever land policy results in the largest annual crops.

Financing Highway Construction.

Mr. Horace C. Sylvester, Jr., Vice-President of the National City Company, made an address before the eighteenth annual convention of the American Road Builders' Association, at Chicago, on February 12, last, upon the subject of "Highway Finance," from which we make a few extracts touching the more important features of the subject:

The first principle which I would emphasize is that in financing highway construction, money borrowed should be repaid as soon as the principal and interest can be raised by taxation, without unreasonably burdening or oppressing the taxpayer. Under present conditions, it is impossible to forecast the time when reconstruction and rebuilding will be required. Before that time arrives, the bonds are obligations issued to finance the original construction should have been retired. * * *

The other features in the proper and successful financing of highway construction are those which create an attractive and marketable security and permit the borrowing of money on the cheapest and lowest terms. * * *

The next unit in road construction in order of importance, is the County. County bonds approach the State bonds in security and desirability, and are a much better security and much more attractive to investors than the bonds of a township or district.

Finally come the bonds of a township or district. These are good securities, but the rate of interest is higher than the rate on bonds which may be issued by either the County or the State.

To successfully finance highway construction, it is my opinion that highway bonds should be issued by a State, by a County, or by a District or Township, and should be paid from an ad valorem tax which is authorized to be levied in an amount sufficient to pay the bonds. No limit should be placed upon the rate of tax which may be levied. If such a limit be imposed, the desirability of the security will be affected, the rate of interest will be increased, and the taxpayers will be needlessly burdened. * * *

While a security based upon a special assessment may be marketable, the price paid in the shape of interest and discount, will be much greater than in the case of an obligation secured by an ad valorem tax. This will be the case where the bond is issued by a county but is payable from a special assessment, and it is only when a default has taken place in the collection of a special assessment, that the County can be compelled to pay principal or interest. Such an obligation is not regarded with favor. * * * They can only be placed if they bear a high rate of interest, and many times, they must be sold at a discount. Frequently they are issued directly to contractors, who have bid for the work, knowing that they must take payment in this form. The cost of the improvement is increased, because the contractor so bidding will add enough to absorb any discount at which he will be obliged to sell the bonds. The price of money necessary to finance an improvement when raised in this way will be great. When money may be borrowed upon a general obligation of a county at say five per cent per annum, it will be found necessary to pay six per cent upon a special assessement obligation at the least. Sometimes the special assessment obligations will be disposed of to the ultimate investor so as to net him seven, eight or nine per cent per annum. The public must pay this return to the investor in some form or another.

* * * If the improvement is a proper case for a special assessment against abutting property, or even against the township or district, such special assessment should be treated simply as a means of reimbursing the county, with which the borrower will have no direct concern. The special assessment should be regarded simply as in the nature of an additional means of raising money or more equitably distributing the public burden and should not have any relation to the bond or debt, except such as arises from the fact that the county has an additional resource. * * *

Serial Issues.

The advantages of a serial issue as compared with a flat term issue are numerous. The serial issue immediately absorbs the monies raised by taxation to pay the principal. The creation of a sinking fund is rendered unnecessary. The accumulation of large sums in the city treasury in the name of a sinking fund, possibly bearing a small rate of interest, whilst full interest is payable on the city's debt, is avoided. The serial issue automatically conforms to the principles of economic financing, and even if compared to cases when the sinking fund is efficiently administered, results in a saving to the municipality.

The serial method by dispensing with a sinking fund avoids the danger of loss from improvident or negligent management of sinking fund monies, or from dishonesty or incompetency. It removes the temptation to so employ large sums of money as to further personal rather than public aims, and if consistently carried out, it avoids incurring the expenses for the management of a sinking fund.

But a further and much greater advantage rests in the fact that if a serial issue be made, the danger of a refunding at maturity will be avoided.

Keep the Buyer of Securities in Mind.

In financing your road improvements, I urge upon you always to try to issue a security which will be attractive to the investor. It is good business for the county, township or district. It is also good business for the banker. The certainty of payment on the due date of an obligation is of the essence of all successful business, and everything that can be done to assure the investor that on the day stated, the amount of his loan will be repaid to him, will tend to reduce the cost of the loan to the borrower.

Negotiating the Sale.

The sale should be conducted under such terms as will assure a fair deal. If a public sale be had the bids should be received, opened, and the bonds promptly awarded under conditions which will exclude the possibility of favoritism. If the bonds be sold privately, the negotiations should be so conducted that when the purchaser takes delivery of the bonds, he will not find that the county, township or district has already offered them indiscriminately to all the banking houses and generally shopped around trying to obtain a purchaser. No person likes shopworn goods, and bonds which have been privately offered to every banker or investment dealer by some person professing to act on behalf of the county, township or district, are not looked upon with favor by reputable dealers.

In everything that is done, the best policy is to place the interests of the county, township or district first. Reputable bankers and dealers wish a security which is beyond suspicion and prefer dealing that is open and above board, and so long as they are squarely treated in the sale of bonds, no reputable banker or dealer will complain merely because the interests of the public are carefully protected.

Bond Market.

There was a distinct letup in new financing during the month which has assisted materially in clearing the market of undigested portions of the many issues which were publicly offered in rapid succession during the early part of the year. The latter part of the month there was noticeably a much better tone in the bond market, with advancing prices. This was especially true in regard to foreign government issues. It does not appear now as though there was a large stock of securities in the hands of dealers, and the let-up of new offerings during the month should result in a better distribution of recent issues and tend to place the market in a position for further absorption of new securities.

Following is a list of the more important new corporate issues offered in the month of March:

$2,500,000	West Virginia Metal Products Corp. 7% Cumulative Conv. Pref. Stock at par.
1,000,000	Bird & Son, Inc., East Walpole, Mass. 8% Cum. Prior Pref. Stock at 100 & dividend.
1,250,000	Bradley Co. (Springfield, Mass.) 8% Cumulative Pref. Stock at 100 & dividend.
1,400,000	Washington, Baltimore & Annapolis Electric RR. 2-yr. 7% Mortgage & Coll. Trust Notes, at 98.19 & int., to yield 8%.
1,500,000	Crowell & Thurlow S.S. Co. 1st Mtge. 8% Serial Gold Bonds, due March 1, 1923-32, at 99½ & int., yielding from 8.05% to 8.2%, according to maturity.
2,000,000	Public Service Co. of Northern Illinois 7½% Conv. Gold Debentures, due March 1, 1936, at 95 & int.
5,000,000	Sharon Steel Hoop Co. 1st Mtge. 20-yr. S. F. 8s, Series A at 100 & int.
2,500,000	Shawinigan Water & Power Co. 1st Ref. Mtge. S. F. 6s, due July 1, 1950, at 90½ & int., yielding about 6¾%.
2,000,000	U. S. Building Material Co. of Chicago 1st Mtge. 8% Serial Gold Bonds, due Sept. 1, 1921-Mar. 1. 1931, at par & int.
5,000,000	Boston Consolidated Gas Co. 1-yr. 7% Notes, at 99½, to net over 7½%.
10,000,000	Cuban-American Sugar Co. 1st Mtge. Coll. 8% S. F. Gold Bonds, due Mar. 15, 1931, at 100 & int.
2,000,000	Fraser Companies, Ltd. 8% Genl. Mtge. Gold Bonds; Series A, due Mar. 1,1941, at 99 & int., to yield 8.10%.
25,000,000	Humble Oil & Refining Co. 2-yr. 7% Gold Notes, at 99 & int., to yield about 7.55%.
4,000,000	Mount Royal Hotel Co., Ltd. 8% Conv. Debentures, at 100 & int. with bonus of 40% common stock.
1,000,000	Howard Smith Paper Mills, Ltd. 1st Ref. Mtge. S. F. 7s, due Jan. 2, 1941, at 82 & int., yielding 8.82%.
2,000,000	California-Oregon Power Co. 1st & Ref. Mtge. S. F. 7½% Gold Bonds, Series A, due Feb. 1, 1941, at 100 & int., yielding 7½%.
2,500,000	Los Angeles Gas & Electric Co. Gen. & Ref. Mtge. 7% Gold Bonds, Series A, due Mar. 1, 1926, at 98¼ & int., to yield about 7.40%.
2,000,000	(Rudolph) Wurlitzer Co. Cincinnati, 8% Cum. Pref. Stock, at 100 & div.
4,000,000	Abitibi Power & Paper Co., Ltd., Consol. Mtge. 8% S. F. Gold Bonds, due Mar. 15, 1931, at par & int.
2,500,000	Great Western Power Co. of California General Lien Conv. 8% 15-yr. Gold Bonds, at 100 & Int.
1,250,000	Municipal Gas Co., Albany, N. Y., 1-yr. 8% Gold Notes, at 100 & Int.

During the first week of the month the United States Supreme Court announced a decision upholding the constitutionality of the Federal Farm Loan Act and the exemption of the bonds from Federal, State and local taxation, and it is expected that the Farm Loan Board will take advantage of the better market which has developed as a result of the above mentioned decision to offer for sale shortly a substantial amount of Farm Loan Bonds.

Financing by states and municipalities was also on a small scale during the month, the more important issues being:

$3,000,000	South Carolina 6% Notes, due 1922, price to yield 6½%.
1,250,000	Hidalgo County (Texas) Water Improvement Dist. No. 2 6% Coupon Bonds, due Dec. 1, 1921-49. at ???
2,500,000	Tarrant County, Texas, 5% Road Bonds, due Oct. 10, 1924-50, at prices to yield from 6% to 5.65%.
1,000,000	Province of Manitoba 5% 5-yr. Gold Coupon Debentures, at 90¼, to yield 7%.
$700,000	Brown County, Wis., 5% Road Bonds, due 1922-41, at prices to yield from 6% to 5.40%.
835,000	Casper, Wyoming, 6% Bonds, due 10-20 yrs., at par.
850,000	Stearns County, Minn., 6% Court House Bonds, due Mar. 1, 1926-41, at prices to yield 5.50%-5.75%.
2,000,000	Province of British Columbia 6% 5-yr. Debentures, at basis of about 5.15%.
750,000	Quebec Roman Catholic School Commission 6% 10-yr. Debentures, at basis of about 6.15%.

National City Building

42nd St. and Madison Avenue

Possession Prior to May 1, 1921

LOCATION

At the Hub—42nd St. and Madison Avenue.

One block from the Grand Central Station.

IDEAL BUILDING

The Building is under the direct management of the owner.

This insures a high-class and conservative list of tenants and a service of distinction and character.

A luncheon club will occupy the top stories—The National City Safe Deposit Company's vaults the basement. Between these there are fourteen floors so arranged as to give plenty of light—permanent light—from three street frontages and an unusually large, light court.

Leases are now being made

For particulars apply to

NATIONAL CITY REALTY CORPORATION

ON THE PREMISES, OR

National City Bank Building, 7th Floor, 55 Wall Street